THE MANITOBA MILK PRODUCERS' MARKETING BOARD

18TH ANNUAL REPORT 1992

BOARD MEMBERS

L. to R. Standing: A. E. Ens, H. M. Jameson, K. P. Leppky, W. J. S. Wade, G.M., N. Andrew, Wm. Swan, M. O. Delichte. Seated: N. Van Ryssel, Vice Chairman, L. Balcaen, Chairman, C. Finnie, Executive Member.

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TABLE OF CONTENTS

	Page
Chairman's Message	1
Report From the Board	
Meetings, Elections, Milk Committees	2
Notice of Annual District Meetings	3
List of District Municipalities	4
Standing Advisory Committees	5
Transportation	6
Market Expansion Activities:	
Advertising & Promotion	7
Nutrition Education	8
School Milk Program	8
Total Allowable Production Quota Cream Market Share Quota	9
Manitoba Milk Pool Results	10
Federal Support Prices and Subsidies	11
Analysis of Fluid Plant Sales	12
Milk Pricing	13
Review of Milk Production	14
Auditor's Report	15 - 27

CHAIRMAN'S MESSAGE 1992

Our industry has known exceptional stability for most of the last two decades. That stability is now being assailed on many fronts. A changing market demanding less butterfat, government deregulation and new international trade agreements are some of the challenges that require us to re-examine our structures and our marketing approach.

Producers are tired of quota roll-backs and ever changing policies. An end to quota rollbacks is in sight; that unfortunately will also require more policy changes. Because those changes affect all the stakeholders in the industry we must work together so that we can manage those changes effectively and equitably.

The adversity that the industry is facing has also brought producers and processors closer in working towards solutions. Provinces that represent 90% of the milk production in Canada have now undertaken to move to one milk pool such as the one we have in Manitoba. We are also discussing regional and national arrangements that would make us more efficient in meeting increased import competition and becoming more efficient in marketing our products.

Our Board has worked intensively with other stakeholders in our province to move to multiple component pricing. Our surplus removal levy structure has also been changed to more appropriately reflect market realities. Those moves and others to come, will place our producing sector in a better position to adapt to future market needs and provide tools to make each farm more profitable.

With all the changes that are occurring, one of our top priorities is to commit more resources to help producers adapt to the changes in a manner in which they will be able to draw maximum benefits from their operations. I would like to thank our staff who have spared no effort and taken on new responsibilities so we can offer a more valued service.

I wish to thank all milk producers who have continued to show their support for our Board. I am proud of the fact that we have been able to continue to re-structure so that our services are more in tune with the needs of our clients.

I strongly believe that our future can be as bright as our past providing that all stakeholders bring their goodwill and expertise to the process of managing the changes required. The best way to predict the future is to help create it. That way, challenges can become opportunities.

My sincere appreciation to fellow Board members for their continued support. Special thanks to those who have borne the additional responsibilities imposed on them due to my frequent absences related to my responsibilities as president of our national producer organization, Dairy Farmers of Canada.

Sincere best wishes to all.

REPORT FROM THE BOARD

Board

During the past dairy year, August 1, 1991 to July 31, 1992, a total of 19 regular Board meetings were held. A number of these meetings encompassed two days thus involving 28 days of Board members' time.

As well, Board members serve on committees of the Board, participate in seminars, and attend affiliated organizations' meetings on the Board's behalf.

District Elections

Nominations were called during October 1991 for producers to serve as Member of the Board to represent Districts No. 2, 5 and 8. Messrs. H. M. Jameson (District No. 2) and L. Balcaen (District No. 8) were re-elected by acclamation. Mr. Alan Goresky, District No. 5 Member, resigned from the Board having served as a member since December 1976. An election was held in District No. 5 resulting in Wm. Swan of Warren being declared elected.

Mr. C. J. Knockaert, District No. 4, resigned from the Board effective February 29, 1992. Mr. M. O. Delichte of St. Alphonse, was acclaimed Board member effective April 21, 1992.

This year, elections will be held in Districts No. 3 (C. Finnie), 6 (N. Van Ryssel) and 9 (K. P. Leppky).

District Meetings

Fourteen spring district meetings were held in the nine districts during the period April 7 to 22, 1992.

In accordance with the Administration By-Law 3/89 of the Board, Annual District Meetings were held during the period October 1 to 31, 1992. Notice of meeting, accompanied by municipal breakdown for the districts, was mailed to all registered producers in the province. Reproductions of notice of meeting and municipal breakdown appear on the next two pages.

District Milk Committees

The Board supports nine district milk committees which consist of nine elected milk producers. These committees meet with their individual Board member to act as advisors in development of Board policy.

THE MANITOBA MILK PRODUCERS' MARKETING BOARD
104-1580 Dublin Ave., Winnipeg, Manitoba R3E 0L4 (204) 786-6063

NOTICE OF ANNUAL DISTRICT MEETINGS 1992

Annual District Meetings of the Manitoba Milk Producers' Marketing Board will be held at 8:00 P.M. on the dates listed below:

District 1	Wednesday October 7	DAUPHIN, Manitoba Rodeway Inn Motel
District 2	Tuesday October 6	BRANDON, Manitoba Agricultural Extension Centre
District 3	Monday October 5	PORTAGE LA PRAIRIE, Manitoba Westward Village Inn
District 4	Thursday October 15	BRUXELLES, Manitoba Parish Hall
District 5	Wednesday October 21	TEULON, Manitoba Teulon Centennial Hall
District 6	Thursday October 8	OAKBANK, Manitoba Kin Place
District 7	Tuesday October 20	WINKLER, Manitoba Winkler Citizens Friendship Centre 584 Mountain Avenue
District 8	Monday October 19	LA BROQUERIE, Manitoba Centre de L'Amitie
District 9	Tuesday October 13	KLEEFELD, Manitoba Kleefeld Elementary School Auditorium

ELECTIONS FOR BOARD MEMBER will be conducted this year in Districts No. 3, 6, and 9. Official nomination papers are available on request from the Secretary or may be obtained at the time of the meeting in the districts in which an election is to be held.

The following subjects will be discussed plus any that you wish to raise.

1. Introduction
2. Minutes of 1991 Meeting
3. Quota Policy 1992-93
4. Dairy Industry Update
5. Election of D.M.C. Members
6. Resolutions - Deadline November 6, 1992
7. Other Business

In the event it is inconvenient for you to attend the Annual District Meeting scheduled for your area, you are welcome to attend any other Annual District Meeting.

Dated at Winnipeg in Manitoba this 21st day of September, 1992.

THE MANITOBA MILK PRODUCER'S MARKETING BOARD
36 Scurfield Boulevard
WINNIPEG, MANITOBA
R3T 3N5

THE MANITOBA MILK PRODUCERS' MARKETING BOARD

Pursuant to Section 1 of the Administration By-Law, the following nine districts are established composed of the Municipalities hereinafter set out opposite the number of each district

District #1
Alonsa
Archie
Birtle
Blanshard
Boulton
Clanwilliam
Consol
Dauphin
Ellice
Ethelbert
Gilbert Plains
Glenella
Grandview
Hamiota
Harrison
Hillsburg
Lawrence
McCreary
Miniota
Minitonas
Minto
Mossey River
Mountain #1
Mountain #2
Ochre River
Odanah
Park 1
Park 2
Rosedale
Rossburn
Russell
Ste. Rose
Saskatchewan
Shellmouth
Shell River
Shoal Lake
Silver Creek
Strathclair
Swan River
The Pas District

District #2
Albert
Arthur
Brenda
Cameron
Cornwallis
Daly
Edward
Elton
Glenwood
Morton
North Cypress
Oakland
Pipestone
Riverside
Sifton
Wallace
Whitehead
Whitewater
Winchester
Woodworth

District #3
Cartier
Grey
Lakeview
Langford
Lansdowne
North Norfolk
Ptge.la Prairie
Westbourne

District #4
Argyle
Dufferin
Lorne
Louise
Pembina
Roblin
South Cypress
South Norfolk
Strathcona
Thompson
Turtle
Mountain

District #5
Armstrong
Bifrost
Coldwell
Eriksdale
Fisher
Gimli
Grahamdale #1
Grahamdale #2
Rockwood
St. Laurent
Siglunes
Woodlands

District #6
Alexander
Brokenhead
Lac Du Bonnet
McDonald
Pinawa
Reynolds
Richot
Rosser
St. Andrews
St. Clements
St. Francois
Xavier
Springfield
Victoria Beach
Whitemouth
Winnipeg Area

District #7
Franklin
Montcalm
Morris
Rhineland
Roland
Stanley

District #8
La Broquerie
Piney
Ste. Anne
Stuartburn
Tache

District #9
De Salaberry
Hanover

STANDING ADVISORY COMMITTEES

Executive: L. Balcaen, N. Van Ryssel, C. Finnie

Cost of Production

N. Van Ryssel
C. Finnie
K.P. Leppky

Cream Advisory

A.E. Ens
H. Jameson (Chairman)
M. O. Delichte

Environment

K.P. Leppky
M.O. Delichte
Wm. Swan

Finance

A.E. Ens
H.M. Jameson
C. Finnie

Industry Relations

C. Finnie
K.P. Leppky
N. Van Ryssel

Canadian Milk Supply Management
L. Balcaen
C. Finnie

Dairy Bureau of Canada
K. P. Leppky

Dairy Farmers of Canada
L. Balcaen
N. Van Ryssel

Market Expansion

N. Andrew
M.O. Delichte
K.P. Leppky
N. Van Ryssel
Wm. Swan

Research

C. Finnie
K.P. Leppky
N. Van Ryssel

Transportation

N. Andrew
L. Balcaen
A.E. Ens - Chairman
Wm. Swan

Keystone Agricultural Producers
N. Van Ryssel

Manitoba Agricultural Employment Development
C. Finnie

Manitoba Milk Recording
K.P. Leppky

Nacdai
N. Van Ryssel

TRANSPORTATION

In last year's report on transportation it was stated that the Board's renegotiated transporter rate formula contained efficiency incentives. The results of some incentives are becoming evident with the reduction in transporter numbers that is taking place, and the reduction in the number of trucks being operated. These, along with transporter instigated route rationalizations, are producing improvements to the bulk milk transportation infrastructure which will have significant long term benefits.

During the past year the Board has been allowing the incentives contained in the rate formula to attain a degree of effectiveness. That is not to say other areas of transportation have come to a standstill. Several fairly recent issues, such as plant closures and consolidations have mandated a good deal of attention. To deal with some of the logistical problems these present, the Board is willing to consider some innovative approaches in achieving solutions.

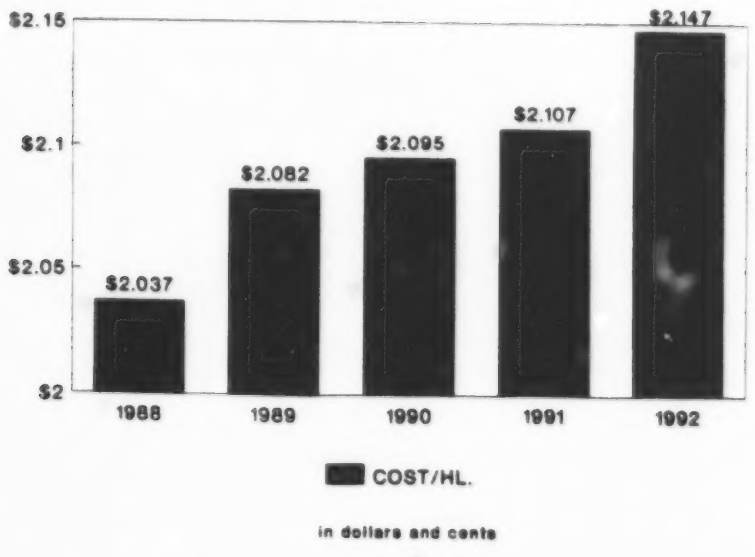
The future, no doubt, includes the use of more semi-trailers. The potential for utilizing equipment to greater degrees also exists in the areas of night hauling, and off-hours pickup or plant deliveries.

Much could also be done in the area of scheduling of deliveries to plants. With processor co-operation, a more flexible system could provide many advantages regarding assembled load direction. In the last year, Manitoba's bulk milk transporters hauled 2,563,323 hectolitres of milk, and received $5,512,000 to deliver it to plants. This equals a cost per hectolitre of $2.15 which is an increase of 2.0 per cent over the previous year. The volume hauled decreased by 4,997,095 litres or 1.91 percent from last year. The amount paid out as additional costs for diversions decreased $47,465 or about 43 per cent from last year. The volume diverted was slightly less than last year; the cost decrease was primarily due to the method employed in paying for diversions.

Although the coming year presents many new challenges in the field of bulk milk transportation, the Board is confident that with the co-operation of all industry stakeholders, the system can continue to function in above average fashion through a pro-active management approach.

	90/91	91/92
Number of Trucks Operated	47	45
Number of Routes Served	112	104
Number of HL Hauled/Km. Travelled	0.686	0.675
Estimated Annual Distances (km)	3,810,000	3,795,000

TRANSPORTATION COST per HECTOLITRE
for the five quota periods shown



ADVERTISING & PROMOTION

In a year when competitive beverages have experienced a downward trend in their markets, milk has seen a slight improvement over each of the preceding two years. Considering all the many factors which currently influence fluid milk consumption we have addressed these adverse market conditions with more aggressive programs.

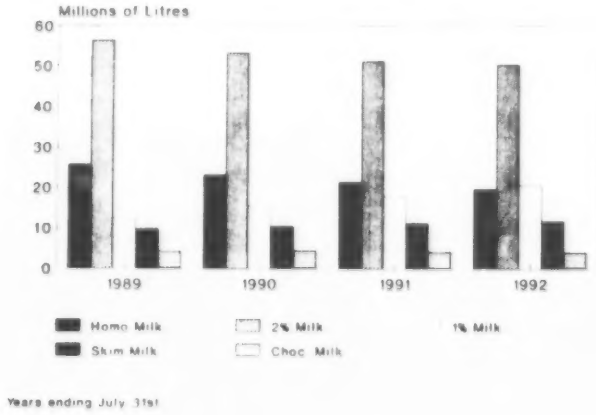
Television continues to have the greatest impact in advertising and delivers the most efficient results with the primary target of adults 20 - 39 years, while still maintaining the teen audience. The current campaign "Milk. Just a Special Touch of Paradise" has been expanded to include two new 30 second commercials.

The Fluid Milk Group (three prairie and three maritime provinces) met with the other provinces to consider a national fluid milk advertising program. In a national joint venture, the individual provincial costs in television production and research would be substantially reduced and the opportunity would be available to "buy in" to other programs designed for the secondary markets by provinces with budget capabilities.

A major change in our marketing plan was transferring summer restaurant advertising and promotional funds to the area of nutrition advertising and promotion and fluid cream advertising. Besides major expenditures in print and radio advertising, the nutrition promotional programs have been targeted at dentist and daycares expanding on the D.B.C. 'Say Cheese' project. "Cheese as a Snack Puts the Bite on Cavities" was launched in the fall of 1992 to further extend our activities with these targets. Some programs have been specifically designed to measure their effectiveness.

With greater emphasis on these new projects many of our ongoing programs are being streamlined or eventually phased out.

MANITOBA CLASS 1 FLUID MILK SALES
Quota Years 1989 to 1992



Years ending July 31st

THE SCHOOL MILK PROGRAM

This year our school milk program completes 9 years in the Manitoba school system.

We have seen our program grow from 124 schools in 1983-84 to 385 schools in 1991-92. We continue to attract new schools every year and sales are positively reflected in over 70% of those schools on our program. We welcome the challenge of attracting even more schools in our 10th year in the Manitoba school system.

ELEMENTARY PROGRAM

In the elementary program we graduated from using a time consuming Charting System to a more streamlined "Draw System" that gained a wider acceptance within the school system.

The Milk Spotters program for junior and senior high schools continues to attract a large number of participants. Scratch 'n Win tickets still prove to be an excellent method of randomly distributing prizes. Kits are designed in four sizes - to accommodate the smallest to the largest schools.

This year lunch bag fundraiser, milk carton recycling, spirit week and milk co-ordinators gifts were added to the program in response to needs identified by the schools. Program evaluation was used intensely in rural areas in 1991/92 to assess and improve program impact.

NUTRITION EDUCATION: PARTNERSHIPS FOR HEALTH

The past year has been outstanding for Milk's Nutrition Education programs and partnerships. The popularity of our consumer programs Food Track and Fat Budgetting has resulted in two invaluable partnerships this year! The Manitoba Heart Health Project and The Cancer Society's Workplace Wellness programs now use both of our workshops in their offerings to clients. We could not ask for better partners to promote and establish credibility for our programs in their offerings to clients.

This fall we will enter into yet another partnership with The Manitoba Associations of Home Economists and Registered Dietitians. This partnership involves the sponsorship and promotion of a health professional presentation by Sheila Murphy. We anticipate working more closely with the Dairy Bureau in the development of materials for use with our audiences in the promotion of dairy nutrition.

TOTAL ALLOWABLE PRODUCTION QUOTA

The domestic requirements portion of provincial MSQ was reduced 5.76% effective August 1, 1991. At the same time, the sleeve was increased from 3% to 4%. Milk producers TAP was rolled back 2% August 1, 1991. On February 1, 1992, provincial MSQ was cut a further 1.9%. TAP was rolled back 1%. Effective August 1, 1992, provincial MSQ was cut 3% and TAP was cut 2%. TAP base for Manitoba's milk producers, effective August 1, 1992, is estimated to be as follows:

Fluid	11,829 Kg
Industrial	12,514
Sleeve	592
TAP Base	24,935

* fluid sales based on 91/92 actual of 106,588,787l.

CREAM MARKET SHARE QUOTA

During 91/92 dairy year, cream MSQ was cut 13% due to over allocation, removal of sleeve and domestic requirements. The special block of cream quota reserved for cream producers was reduced 3% effective August 1, 1992, to reflect the 3% quota cut nationally of domestic requirements for the 92/93 dairy year. Individual producer quotas were cut 2% effective August 1, 1992.

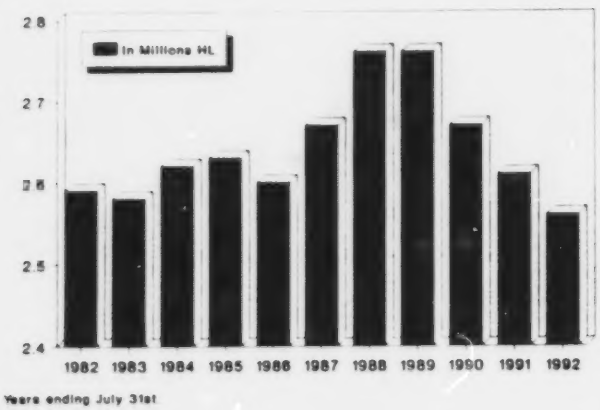
Temporary transfers of cream quota ceased August 1, 1992. The cream conversion policy, implemented August 1, 1990, was amended August 1, 1992, as follows:

1. conversion date - anytime

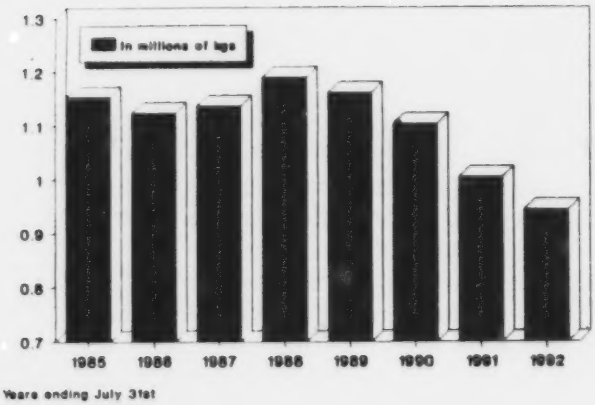
2. the "two year rule" regarding production criteria for cream producer applicants was eliminated.

Former milk producers and new cream producers (after July 1, 1992) will still be required to meet the original production criteria requirements.

MANITOBA MILK PRODUCTION
Quota Years 1982 to 1992



MANITOBA CREAM PRODUCTION
Quota Years 1985 to 1992



MANITOBA MILK POOL RESULTS

MANITOBA MILK POOL RESULTS
August 1, 1991 to July 31, 1992
Total Manitoba Production – 256,332,298 (L)
Basis 3.6 KG/HL

	Litres each Class	Value per HL	Net Pool Revenue
Class 1	106,880,811	58.41	
Class 2	7,695,829	48.13	
Class 2A	10,815,974	46.51	
Class 2B	6,530,837	47.16	
Class 3	34,504,894	43.16	
Class 3A	33,901,775	43.85	
Class 4	3,958,976	44.98	
Class 5	35,804,211	43.54	
Class 6	82,642	43.25	
Class 7	(781,707)	42.63	
Meter Shrinkage	297,346	24.18	
Unsaleable	167,888	43.13	
Production within T.A.P./D.E.	239,859,476	$50.52324	
Less Diversion Costs		0.02397	
Meter Shrinkage		0.04868	
Pool Administration		0.14000	
MFC Laboratory Charge		0.06996	
Ind'l Milk Proc Chg.		0.01090	
Price/HL within T.A.P./D.E.		$50.22972	$120,480,744.35
Production in T.A.P./Over D.E. (Cl.3)	1,533,552	$42.87127	658,944.76
Production (2% Sleeve) (Cl.3)	3,008,075	$42.87127	1,290,482.78
Production Over T.A.P. (Cl.3)	11,907,885	$42.87127	5,110,526.42
Production Institutional (Cl.3)	23,310	$42.87127	10,014.94
TOTAL POOL	256,332,298		$127,550,713.25
TOTAL POOL 1990/91	261,327,840		$127,658,560.74

FLUID AND INDUSTRIAL UTILIZATION SUMMARY

Man. Production Within 100% T.A.P.		241,416,338	100.0000%
Less litres ineligible for Subsidy:			
Used for Cl. 1 (Fluid) (44.2724%)	106,880,811		
Add 8.1% for creams	8,657,346	115,538,157	47.8585%
Balance used for manufactured products (eligible for subsidy)		125,878,181	52.1415%
Over/T.A.P. Production		11,907,885	

Average butterfat content 3.73711 kg/HL in Manitoba Production

FEDERAL SUPPORT PRICES & SUBSIDIES

FEDERAL DAIRY PRODUCT SUPPORT PRICES
1989 - 1992
(Dollars per kilogram)

	Skim Milk Powder	Butter
August 1, 1989	3.046	5.167
August 1, 1990	3.130	5.331
August 1, 1991	3.304	5.331
August 1, 1992	3.304	5.317

PRICES PAID BY PROCESSORS FOR EACH CLASS OF UTILIZATION
(Dollars per hectolitre)

	June 1991	September 1991	June 1992	September 1992
Class 1	58.82	58.82	57.15	57.15
Class 2	47.01	48.24	48.24	48.24
Class 2A	45.38	46.61	46.61	46.61
Class 2B	46.08	47.31	47.31	47.31
Class 3	42.06	43.29	43.29	43.29
Class 3A	42.74	43.97	43.97	43.97
Class 4	43.84	45.07	45.07	45.07
Class 5	42.31	43.54	43.54	43.48
Class 6	42.06	43.29	43.29	43.29
Class 7	42.06	43.29	43.29	43.29

ANALYSIS OF FLUID PLANT SALES

AUGUST 1991 - JULY 1992

SALES/UTILIZATION	LITRES	% SPLIT	DAIRY YEAR PERCENTAGE +INC/-DEC
HOMO & SPECIAL	19,640,254	18.38%	-7.58%
2% MILK	50,232,833	47.00%	-1.80%
1% MILK	20,632,753	19.30%	15.60%
SKIM	11,629,798	10.88%	4.87%
BUTTERMILK	783,521	0.73%	-4.23%
CHOCOLATE	3,961,652	3.71%	-4.24%
TOTAL CLASS 1	106,880,811	100.00%	0.55%
CEREAL/TABLE CRM	2,441,870	44.95%	-1.67%
WHIPPING CREAM	941,835	17.34%	-4.89%
SALAD/SOUR REG.	1,525,750	28.09%	3.52%
SALAD/SOUR LITE	523,119	9.63%	22.09%
	5,432,574	100.00%	1.06%
COTTAGE CHEESE	8,293,165	47.24%	0.08%
YOGURT	1,843,754	10.50%	-2.44%
EGG NOG	732,802	4.17%	-8.53%
ICE CREAM	6,686,695	38.09%	-3.84%
TOTAL 2A/2B	17,556,416	100.00%	-2.09%
TOTAL ALL LITRES	129,869,801		

MILK PRICING

Industrial Price Negotiations

On August 1, 1991, the Canadian Dairy Commission increased the target support price for industrial milk by $1.23/hl. This was due to an increase in the support price for skim milk powder from $3.130 to $3.304/kg. The butter support price remained the same at $5.331/kg.

In negotiations with Manitoba processors, all classes of industrial milk were increased by the full $1.23/hl.

Fluid Milk Price Negotiations

The Milk Prices Review Commission has the authority to set producer prices for fluid milk.

The Board has undergone numerous meetings with the Commission with regard to a new fluid milk pricing formula. The Board has insisted the pricing formula be based on actual producer costs from the Manitoba COP report. The Milk Prices Review Commission will revise the formula by December 1, 1992.

Multiple Component Pricing (MCP)

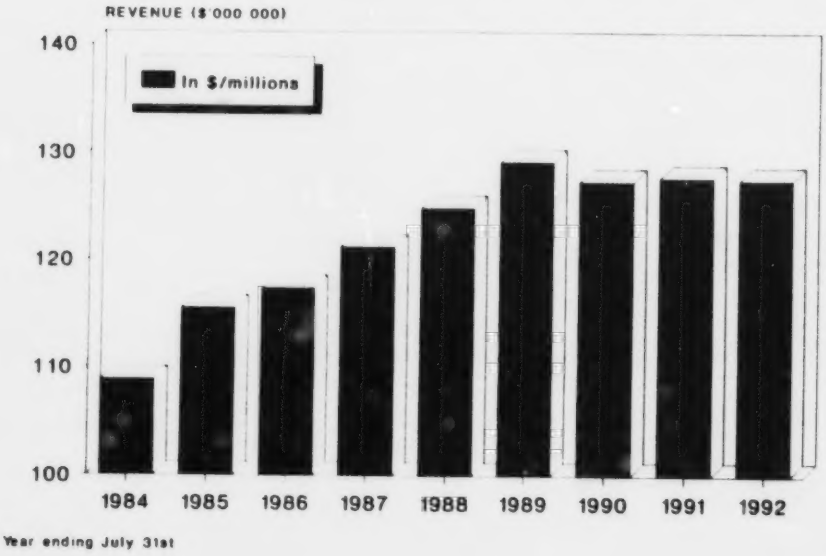
Multiple component pricing (MCP) of milk can be defined as the pricing of milk based on butterfat, protein and other solids. All components in milk are important and contribute to its value.

The Board believes MCP will bring greater equity to all stakeholders in the Manitoba dairy industry. Producers will be paid according to the true value of the milk they supply, while processors will pay according to all of the components in the milk they receive.

In order to speed up the implementation process, a technical committee, made up of Board and processor representatives, was created to review the MCP system. The committee met on a regular basis with an objective to resolve any concerns or differences with the MCP system. Positive steps were achieved with the Manitoba implementation date for MCP set for the early 1992/93 dairy year.

MANITOBA POOL REVENUES

Quota Years 1984 to 1992



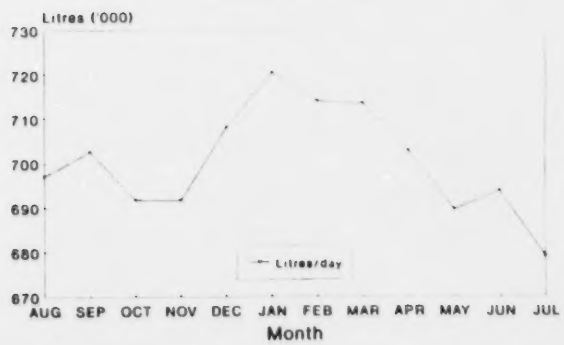
Review of Milk Production and Marketing

Manitoba milk production for the 1991/92 dairy year was 256,332,298 litres, a decrease of 4,995,542 litres or 1.91% over the previous year. An average of 21,361,025 litres per month was shipped by Manitoba milk producers. The lowest production on a daily basis was 678,920 litres in July 1992 and the highest daily average was 720,599 litres in January 1992.

Manitoba average butterfat test for the 1991/92 dairy year was 3.7371 kg/hl, up 0.037 kg/hl from the previous dairy year.

Canadian markets for industrial milk products decreased significantly over the previous dairy year resulting in a net decrease of 6.2% in domestic requirements. Consumption declined in butter (-7%), ice cream (-3%), processed cheese (-4%) and yogurt (-4%). Consumption saw an increase in cheddar (3%) and specialty cheese (8%) from last year.

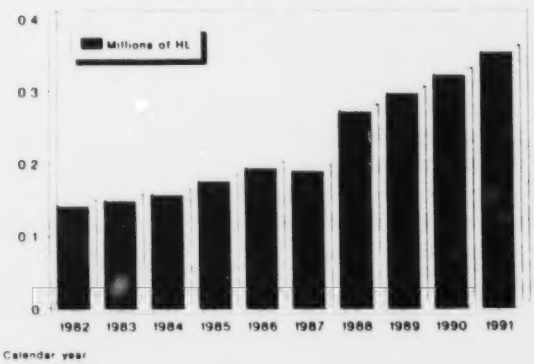
MANITOBA AVERAGE DAILY PRODUCTION BY MONTH
1991/92 Dairy Year



Skim Off

Based on an agreement reached by the Canadian Milk Supply Management Committee, all provinces are now responsible for the fluid skim off produced. That is, the level of fluid skim off produced now affects the MSQ for a province. The Board is working diligently with processors to stem this growth and find practical solutions to the skim off problem.

MANITOBA FLUID SKIM OFF
Hectolitres of Milk



Hutchings May & Co.

John E. Hutchings M.A.(Oxon) C.A.
William C. May C.A.
Lawrence K. Eller B.A. C.A.
Richard F. Hutchings B.A. C.A.
Larry H. Frostiak B.Sc. B.Ed. C.A.

To the Registered Producers of
The Manitoba Milk Producers' Marketing Board

We have audited the consolidated statement of financial position of The Manitoba Milk Producers' Marketing Board as at July 31, 1992 and statements of operations of milk pool, administrative, transportation, quota exchange, market expansion and northern allowance funds and MFC Testing and Research Inc. and consolidated statement of changes in cash position for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Board as at July 31, 1992 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

Hutchings May & Co

Winnipeg, Manitoba
September 16, 1992

CHARTERED ACCOUNTANTS

WINNIPEG 326 Wardlaw Ave Winnipeg Manitoba Canada R3L 0L6 Tel 204 284 7957 Fax 204 453 1243
ALTONA Box 1026 Altona Manitoba Canada R0G 0B0 Tel 204 324 8376 Fax 204 453 1243

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 1992

Exhibit A

	1992	1991
CURRENT ASSETS:		
Cash	$ 4,183,630	$ 3,047,426
Accounts receivable	12,007,496	10,607,326
Prepaid expenses	61,610	81,565
Total current assets	16,252,736	13,736,317
CURRENT LIABILITIES:		
Producer cheques – unissued	9,521,695	9,372,250
Accounts payable and accrued liabilities	6,200,112	4,166,697
Total current liabilities	15,721,807	13,538,947
WORKING CAPITAL	530,929	197,370
PROPERTY, BUILDING AND EQUIPMENT:		
Cost	1,753,341	1,719,041
Less accumulated amortization	(580,948)	(475,261)
Net property, building and equipment	1,172,393	1,243,780
REGISTERED PRODUCERS' EQUITY AND CAPITAL EMPLOYED	$ 1,703,322	$ 1,441,150
Represented by retained income (deficit) in following:		
Board funds –		
Milk Pool Administration (Ex.C)	$ 2,787,443	$ 2,415,877
Board General (Ex.C)	(598,397)	(593,733)
Market Sharing Plan (Ex.C)	(149,811)	(144,443)
Transportation (Ex.D)	–	–
Quota Exchange (Ex.E) – milk	69,670	152,456
–cream	(4,826)	5,471
Market Expansion (Ex.F)	–	–
Northern Allowance (Ex.G)	83,574	67,824
	2,187,653	1,903,452
Subsidiary Company –		
MFC Testing and Research Inc. (Ex. I)	(484,331)	(462,302)
	$ 1,703,322	$ 1,441,150

Approved by the Members

Craig Finnie

Craig Finnie

Hugh Jameson

Hugh Jameson

STATEMENT OF MILK POOL FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1992

Exhibit B

	1992	1991
INCOME:		
Milk sold to processors	$130,375,928	$129,892,377
Total income	130,375,928	129,892,377
DISTRIBUTION:		
Payments to producers	114,702,014	113,278,103
Deductions for Board controlled funds:		
Milk Pool Administration (Ex.C)	358,865	365,859
Board General (Ex.C)	497,285	506,976
Market Sharing Plan (Ex.C)	197,113	205,138
Market Expansion (Ex.F)	2,041,863	2,012,225
Transportation (Ex.D)	5,512,036	5,509,783
Northern Allowance (Ex.G)	70,235	71,604
Butterfat Limit Penalty	-	467,349
Deductions determined by others:		
Canadian Dairy Commission	6,590,931	7,073,850
Manitoba Milk Recording Corporation	76,901	78,399
Keystone Agricultural Producers	48,825	52,350
Other deductions:		
Quality penalty levy (Ex.C)	100,535	88,078
MFC Testing and Research Inc. (Ex. H)	179,325	182,663
Total distribution	130,375,928	129,892,377
UNDISTRIBUTED INCOME FOR THE YEAR	-	-
UNDISTRIBUTED INCOME AT BEGINNING AND END OF THE YEAR	$ -	$ -
VOLUME OF MILK (in thousand litres)	256,332	261,328

STATEMENT OF ADMINISTRATIVE FUNDS OPERATIONS
FOR THE YEAR ENDED JULY 31, 1992

Exhibit C

	Milk Pool Administration	Board General	Market Sharing	Total 1992	Total 1991
INCOME:					
Deductions (Ex.B)					
Milk producers	$ 358,865	$ 497,285	$ 197,113	$ 1,053,263	$ 1,077,973
Quality penalties	100,535	–	–	100,535	88,078
Cream producers	–	–	61,042	61,042	65,258
Interest	355,742	–	–	355,742	479,884
Other	–	11,807	–	11,807	12,735
	815,142	509,092	258,155	1,582,389	1,723,928
EXPENSE:					
Amortization	24,055	5,867	12,908	42,830	47,590
Annual meetings	–	23,718	–	23,718	25,574
Antibiotic milk losses	76,150	–	–	76,150	51,818
Communication	31,051	17,532	12,400	60,983	52,038
Data processing	7,200	–	4,896	12,096	25,607
Members (Note 4)	–	229,142	30,512	259,654	238,068
Memberships	–	49,195	–	49,195	51,224
Milk sample costs	33,290	–	–	33,290	41,505
Occupancy	25,793	6,291	13,840	45,924	44,544
Office supplies	27,368	4,885	10,041	42,294	43,024
Professional fees	9,948	97,126	6,632	113,706	131,297
Grants	–	30,760	–	30,760	31,542
GATT seminar costs	–	26,053	–	26,053	–
Staff restructuring	–	–	–	–	152,162
Salaries and benefits	279,609	48,201	154,300	482,110	541,743
Staff travel	8,749	14,096	11,650	34,495	29,491
Other	15,538	12,090	6,344	33,972	68,670
Recovered (Note 1C)	–	(51,200)	–	(51,200)	(60,110)
	538,751	513,756	263,523	1,316,030	1,515,787
NET INCOME (LOSS) FOR THE YEAR	276,391	(4,664)	(5,368)	266,359	208,141
PAYMENT TO RETIRED PRODUCERS (Note 6)	(26,478)	–	–	(26,478)	(121,444)
APPROPRIATION (TO) FROM OTHER FUNDS	121,653	–	–	121,653	56,047
RETAINED INCOME (DEFICIT) AT BEGINNING OF THE YEAR	2,415,877	(593,733)	(144,443)	1,677,701	1,534,957
RETAINED INCOME (DEFICIT) AT END OF THE YEAR	$ 2,787,443	$ (598,397)	$(149,811)	$ 2,039,235	$ 1,677,701

STATEMENT OF TRANSPORTATION FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1992

Exhibit D

	1992	1991
INCOME:		
Producer deductions (Ex.B)	$ 5,512,036	$ 5,509,783
EXPENSE:		
Transporter payments:		
Assigned plant deliveries	5,354,705	5,312,183
Diversions	61,502	103,708
Extra pick-up	2,454	3,892
Salaries and benefits	93,375	90,000
	5,512,036	5,509,783
NET INCOME FOR THE YEAR	-	-
RETAINED INCOME AT BEGINNING OF THE YEAR	-	-
RETAINED INCOME AT END OF THE YEAR	$ -	$ -

STATEMENT OF QUOTA EXCHANGE FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1992

Exhibit E

Milk

	1992	1991
INCOME:		
Quota sales to successful buyers	$ 5,728,217	$ 5,380,153
Interest income	10,978	24,468
	5,739,195	5,404,621
EXPENSE:		
Quota purchases from successful sellers	5,821,981	5,513,085
(LOSS) FOR THE YEAR	(82,786)	(108,464)
RETAINED INCOME AT BEGINNING OF THE YEAR	152,456	260,920
RETAINED INCOME AT END OF THE YEAR	$ 69,670	$ 152,456

Cream

INCOME:		
Quota sales to successful buyers	$ 272,197	$ 140,410
Interest income	1,758	1,747
	273,955	142,157
EXPENSE:		
Quota purchases from successful sellers	284,252	136,686
(LOSS) NET INCOME FOR THE YEAR	(10,297)	5,471
RETAINED INCOME AT BEGINNING OF THE YEAR	5,471	-
(DEFICIT) RETAINED INCOME AT END OF THE YEAR	$ (4,826)	$ 5,471

STATEMENT OF MARKET EXPANSION FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1992

Exhibit F

	1992	1991
INCOME:		
Producer deductions –		
(Ex.B)	$ 2,041,863	$ 2,012,225
Cream	18,782	20,080
	2,060,645	2,032,305
EXPENSE:		
Media advertising –		
National – Dairy Bureau of Canada	1,256,474	1,330,348
Provincial	186,539	154,406
Amortization	15,841	17,602
Members' per diem and travel (Note 4)	4,171	3,058
Occupancy	16,985	16,475
Postage and telecommunication	25,670	25,874
Promotional materials	146,940	136,119
Salaries and benefits	205,902	216,964
Special event sponsorship	5,069	4,348
Staff travel	27,772	27,658
Other	47,629	43,406
	1,938,992	1,976,258
NET INCOME FOR THE YEAR	121,653	56,047
APPROPRIATION (TO) FROM MILK POOL ADMINISTRATION FUND	121,653	(56,047)
RETAINED INCOME AT BEGINNING OF THE YEAR	–	–
RETAINED INCOME AT END OF THE YEAR	$ –	$ –

STATEMENT OF NORTHERN ALLOWANCE FUND OPERATIONS
FOR THE YEAR ENDED JULY 31, 1992

Exhibit G

		1992		1991
INCOME:				
Producer deductions (Ex.B)	$	70,235	$	71,604
EXPENSE:				
Payments to northern producers		54,485		51,768
NET INCOME FOR THE YEAR		15,750		19,836
RETAINED INCOME AT BEGINNING OF THE YEAR		67,824		47,988
RETAINED INCOME AT END OF THE YEAR	$	83,574	$	67,824

STATEMENT OF MFC TESTING & RESEARCH INC. OPERATIONS
FOR THE YEAR ENDED JULY 31, 1992

Exhibit H

	1992	1991
INCOME:		
Component testing fees –		
Producer deductions (Ex.B)	$ 179,325	$ 182,663
Processors	13,937	11,034
Milk recording program	218,917	186,151
Other income	100	1,000
	412,279	380,848
EXPENSE:		
Amortization	47,015	46,308
Board members' per diems and travel (Note 4)	–	653
Courier service	24,138	24,646
Data processing	4,369	1,385
Insurance	9,834	1,987
Interest (Note 1C)	26,276	35,184
Laboratory accreditation	3,201	846
Laboratory supplies	18,883	26,845
Maintenance	17,804	17,138
Occupancy (Note 1C)	24,924	24,958
Office supplies	1,181	1,120
Other	2,818	2,854
Professional fees	34,869	45,527
Salaries and benefits	212,776	221,428
Staff travel	4,080	2,341
Staff training	2,140	–
	434,308	453,220
(LOSS) FOR THE YEAR	(22,029)	(72,372)
(DEFICIT) AT BEGINNING OF THE YEAR	(462,302)	(389,930)
(DEFICIT) AT END OF THE YEAR	$ (484,331)	$ (462,302)

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION
FOR THE YEAR ENDED JULY 31, 1992

Exhibit I

	1992	1991
OPERATING ACTIVITIES:		
Net income(loss) of funds –		
Administrative (Ex.C)	$ 266,359	$ 208,141
Transportation (Ex.D)	–	–
Quota Exchange (Ex.E) – milk	(82,786)	(108,464)
– cream	(10,297)	5,471
Market Expansion (Ex.F)	121,653	56,047
Northern Allowance (Ex.G)	15,750	19,836
Milk Pool (Ex.B)	–	–
	310,679	181,031
(Loss) of subsidiary –		
MFC Testing and Research Inc.(Ex.I)	(22,029)	(72,372)
	288,650	108,659
Non–cash items included in above –		
Other	–	(2,195)
Amortization	105,687	111,500
	394,337	217,964
INVESTING ACTIVITIES:		
Proceeds on disposal of equipment	–	6,500
Purchase of property, building and equipment	(34,300)	(122,835)
	(34,300)	(116,335)
FINANCING ACTIVITIES:		
Payment to retired producers	(26,478)	(121,444)
	(26,478)	(121,444)
INCREASE (DECREASE) IN WORKING CAPITAL POSITION FOR THE YEAR	333,559	(19,815)
CASH PROVIDED BY (USED IN) OPERATION OF NON–CASH WORKING CAPITAL COMPONENTS	802,645	848,931
INCREASE IN CASH POSITION FOR THE YEAR	1,136,204	829,116
CASH POSITION AT BEGINNING OF THE YEAR	3,047,426	2,218,310
CASH POSITION AT END OF THE YEAR	$ 4,183,630	$ 3,047,426

( ) denotes use of cash

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1992

1. SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

The Manitoba Milk Producers' Marketing Board is a body corporate established under The Natural Products Marketing Act of the Province of Manitoba in 1974. The Board is responsible for the control and regulation of the marketing of milk in the province.

(a) MILK POOL FUND

Selling prices - The value of milk sold to processors is determined by its final product use. The Board sets the prices charged to processors except for Class I milk which is set by the Manitoba Milk Prices Review Commission. For purposes of accountability to producers the Board credits income from processor sales to a milk pool fund.

Costs of sales - Income from processor sales in the milk pool fund referred to above is paid to the individual producers based on the quality and quantity of milk shipped.

The operation of the milk pool is accounted for in Exhibit B.

(b) PRODUCER DEDUCTION FUNDS

Operating Expenses - The Board is authorized through provincial statute to deduct fees from producer milk pool payments to cover operating expenses. Such deductions are accounted for separately in Exhibits C, D, F, G, and H.

(c) BASIS OF CONSOLIDATION

The Board and its wholly owned subsidiary MFC Testing and Research Inc. are considered to be one economic entity for accounting purposes. Accordingly, these financial statements are presented on a consolidated basis. However certain transactions between the Board general fund and the subsidiary cannot be eliminated in the respective statements of operations because the Board, by government regulation, follows the fund basis of accounting. The resulting related party transactions not eliminated on consolidation are as follows:

	1992	1991
Interest	$26,276	$35,184
Occupancy	24,924	24,926
	$51,200	$60,110

(d) **PROPERTY, BUILDING, EQUIPMENT AND RELATED AMORTIZATION**

Property, building and equipment are stated at cost. Amortization is provided for on the straight-line basis over an estimated life of five years for office equipment, ten years for laboratory equipment and thirty years for the building.

(e) **INCOME TAXES**

The Board's subsidiary company is a taxable Canadian corporation accounting for income taxes under the tax allocation method. The subsidiary has incurred losses in 1989, 1990, and 1991 which are not certain of utilization. Accordingly the tax reductions that may result from the application of these losses have not been recognized in the accounts as explained in Note 7.

2. **COMMITMENTS:**

Operating lease for office equipment at base rental of $10,665 per annum until March 1994.
Lease payments in the next 5 fiscal years are:
1993 - $14,655, 1994 - $9,209; 1995 - nil; 1996 - nil; 1997 - nil.

3. **PENSION PLAN:**

Employees of the Board participate in the Manitoba Civil Service Superannuation Board pension plan which is a defined benefit plan. The Board participates in the plan on a defined contribution basis whereby it contributes to the plan a fixed amount equal to the amount contributed by the employees.

4. **ELECTED MEMBERS PER DIEM AND TRAVEL EXPENSES:**

Members are paid a per diem of $160 ($160 - 1991) and the Chairman $202 ($202 - 1991) for time spent at meetings or on business matters of the Board. In addition, the Chairman is paid an annual stipend of $20,000 and the Vice-Chairman is paid an annual stipend of $10,000.

District	Per Diem	Expenses
#1 Norm Andrew	$ 13,431	$11,890
#2 Hugh Jameson	12,203	8,426
#3 Craig Finnie	16,953	17,204
#4 Charles Knockaert/Maurice Delichte	8,435	4,505
#5 Allan Goresky/William Swan	8,845	4,341
#6 Neil Van Ryssel (Vice Chairman)	35,131	19,140
#7 A. Ens	9,500	6,247
#8 Louis Balcaen (Chairman)	52,075	15,088
#9 Ken Leppky	14,004	6,407
1992	**$170,577**	**$93,248**
1991	**$162,789**	**$78,990**

5. **PROPERTY, BUILDING AND EQUIPMENT:**

	Cost	Accumulated depreciation	Amortization rate
Land	$ 104,109	$ -	-
Building	759,543	96,074	30 years
Equipment			
- laboratory	459,631	179,197	10 years
- other	430,058	305,677	5 years
	$1,753,341	$580,948	

6. **GOVERNMENT ASSISTANCE:**

In 1989 The Board concluded and dismissed its actions as the plaintiff in a lawsuit in exchange for future government assistance to benefit the dairy industry generally. The government assistance has an estimated monetary value to the dairy industry of $2,254,000 of which $704,000 applies to the Board.

The amount of government assistance received by the Board in 1992 was $134,351 (1991 - $71,460). The amount has been applied to reduce related operating costs of the Board. The government assistance is in the form of grants conditional on the expenditure of funds by the Board on specified matters.

1980 to 1983 producers who have retired and not benefited from the government assistance are being compensated. Compensation paid to July 31, 1992 totalled $600,921 of which $26,478 was paid in 1992.

7. **INCOME TAXES:**

The Manitoba Milk Producers' Marketing Board is an agricultural organization whose income is not payable to or otherwise available for the personal benefit of any registered producer. Accordingly, the net income of the Board is exempt from income taxes.

MFC Testing and Research Inc. is a taxable Canadian corporation. The potential income tax benefits associated with its accumulated operating losses of $484,331 are not recognized in the accounts because of the uncertainty of utilization. The losses are available to reduce taxable income of future years but their availability will expire after 1998.

8. **COMPARATIVE FIGURES:**

Certain of the 1991 comparative figures have been reclassified to conform with the current year's presentation.

RECOGNITION OF RETIRING BOARD MEMBER — ALAN GORESKY

L. Balcaen and A. Goresky.